

# CalSTRS - Health Benefits Committee

## California's Health Care Market – The Need for Reform

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# Introduction

- Managed care viewed more closely
  - The promises
  - The reality
  - The players - how they, together, brought us to where we are
- Reform
  - What it may look like
  - What role CalSTRS may have

# First Generation Managed Care

- Purchasing power brought reduced prices
- Price was critical
- Employers drove most change
- Health plans teamed with employers to reduce price
- Largely from discounts, not process change
- Discounts from migration to managed care

# First Generation Managed Care

- Maybe, price was not all that was wanted
- What about health “maintenance” in the HMO?
- What about “quality”?
- What about “productivity”?
- What about “satisfaction”? (Whose?)

# “Quality” and First Generation

- Serious claims of poor health care quality
  - Errors/mm events: airline baggage handling vs.
    - inpatient medication accuracy
    - mammography screening
    - post heart attack medications
- Lack of systems to prevent adverse consequences of human errors
- An issue of basic patient safety

# Physicians and First Generation

- Pushed by health plans
- Economic pressure/ 1-800 oversight
- Highest levels of personal training/skills
- Oversupply - especially specialities
- Loss of respect and position
- “Guild” organizations
- Resistance, in some cases extreme

# Physicians and First Generation

- Physicians control resource use
- Physicians are critical to changing the system
- Physicians often are very unhappy

# Physicians Have Changed

- Inpatient days/1000
  - 400+ not long ago
  - 125 in “best practice” now
- Lower ALOS
- Outpatient surgery much more common
- Greater “through-put”
- “What more do you want!?”



# Hospitals and First Generation

- Fixed costs are substantial
- Capacity is an issue
- Will capacity ever be reduced in a meaningful way? (facilities; staff)
- Should staff reductions focus on nurses?
- IT capabilities are limited; but treatment and outcomes need measurement

# Health Plans and First Generation

- The promise was both cost and quality
- Cost reductions a “one time hit”?
- What happened to health maintenance?
- What about measured accountability?
- What barriers did health plans face
  - providers, employers, patients
- Consolidation - natural in this market?

# Employers and First Generation

- Cost as the prime impetus for change?
- Have employers been helpful to their “partners”, the health plans?
  - Long term relations?
  - Sharing of knowledge of system and process change?
  - Sharing reality with their employees, the health plan members?

# Members/employees and First Generation

- “Protected” from reality?
- How “protected” are they with problems of
  - access and appeals
  - quality issues
  - lack of measurement and accountability
- Prevented from meaningful participation?

# Is There Gridlock?

- Health plans - losing money; very unhappy members; are satisfaction ratings relevant?
- Physicians - substantial uncertainty and inability to organize, gather capital
- Hospitals - major reduction in demand
- Employers - “Oh, to be out of this business”
- Members - Alienated and angry

# What is presented for “reform”?

- Reform as:
  - Changing the rules of the market by law
  - Changing what happens in the market, by individual and collective actions

# Reform by Law

- Legislation or regulation
- Now, often targeted rather than “global”
- For example
  - Patient protections (direct access to ob/gyn; to pediatrician; POS required, etc.)
  - Claims and appeals (timely and fair process)
  - Remedies (liability of health plans)
  - Provider protections (appeals; incentive plans)

# Reform by Market

- PBGH, General Motors, etc.
- Through contracting with health plans
- Incentives for the plans
  - 2% “premium”
  - evidence based hospital referral
  - foot exams and diabetes
  - Beta blockers use



# Reform by Market

- Incentives to employees
  - increased subsidy for using plans that provide higher (measured) quality

# Limitations

- By law
  - a very blunt instrument
- By the market
  - sometimes quite slow
  - existing barriers are still there

# Patients and Physicians Rule

- Is health care ultimately controlled by patients and physicians?
- If so, how can reform use their power?

# One View - A New Role for Employers and Plans

Robert S. Galvin, M.D. (General Electric)

- The employer as “truth teller”  
(measurements; employees unshielded)
- The employer as partner for process change
- The employer holds the plans accountable
- Patients and physicians work together better

# Another View – Direct Purchasing by Consumers

AMA and the U.S. Chamber of Commerce

- Get the employers out of the way
- Let consumers deal directly with their doctors
- Will “defined contribution” health plans then become the standard?

# A Third View – the Purchaser Holds the Plans Accountable

Arnold Milstein, M.D., PBGH

- Large purchasers use their market clout to set new standards for health plans
- Standards focus on health safety and quality
- This also yields major cost reductions (correct underuse, overuse, and misuse in cases where there is no controversy about the care standard)

# “Reform” of the California Market

- “Reform” is clearly needed – there is too much distress and anger
- Reform is occurring in many ways
  - some legislative
  - some regulatory
  - some in the market - and this also in different ways

# CalSTRS and Reform

- CalSTRS may be able to influence the market
  - with contracting leadership
  - perhaps with longer term partnerships
  - perhaps exploring relations with providers directly rather than just with health plans
  - perhaps in partnership with other large purchasers
- CalSTRS may be able to influence reform by law as well